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DOMINICAN REPUBLIC

Table 1	2022
Population, million	10.7
GDP, current US$ billion	109.8
GDP per capita, current US$	10280.3
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	4.3
Upper middle-income poverty rate ($6.85)[a]	23.2
Gini index[a]	38.5
School enrollment, primary (% gross)[b]	96.7
Life expectancy at birth, years[b]	72.9
Total GHG emissions (mtCO2e)	40.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2020).

GDP grew 4.9 percent in 2022 fueled by a recovery in tourism but is expected to cool down in 2023. The Central Bank proactively increased its monetary policy rate in 2022 to 8.5 percent in response to rising inflation, and subsidies that were instated to ameliorate the increase in food and energy prices, temporarily widening the fiscal deficit in 2022. In this context, poverty is expected to continue to decline in 2022 but remain above pre-crisis levels.

Key conditions and challenges

The Dominican Republic (DR) has been one of the fastest-growing economies in Latin America and the Caribbean, expanding at an annual average of 5.8 percent from 2005 to 2019. Prudent monetary and fiscal policy contributed to macroeconomic stability. Foreign direct investment (FDI) inflows (averaging about 4 percent of GDP over the same period) fueled tourism, services, manufacturing, construction, and mining, while strong remittances sustained domestic demand. Despite its strong external position, the DR's participation in global value chains remains low and exports declined from 28 percent to 21 percent of GDP from 2005 to 2021.

While GDP has fully recovered from the pandemic, the fiscal position has weakened. Public debt remains above pre-pandemic levels and the interest bill has already absorbed three percent of GDP in 2022. Reduced fiscal space has reinforced the declining trend in public investment (from 3.9 to 2.8 percent of GDP between 2005 and 2021). Improvements in the quality of domestic resource mobilization and spending efficiency and effectiveness are necessary to improve public services provision.

Fostering long-term growth will require structural reforms in support of increased productivity that would allow the country to take advantage of nearshoring opportunities and diversify more into higher value-added activities. This should include higher investment in innovation, fomenting economic clusters, and improved public services, particularly in education, while reducing informality.

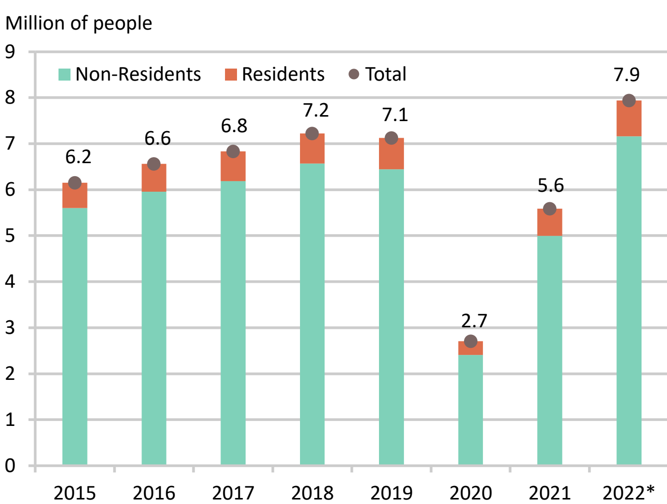
Recent developments

Real GDP grew 4.9 percent in 2022, driven by services. Private consumption and investment growth have decelerated in the second semester, affected by a higher interest rate. The hotels, bars, and restaurants sector grew 24.0 percent in 2022, supported by an active government vaccination campaign, and a recovery in global tourism. Expansionary fiscal policy also contributed to growth.

Tourist arrivals exceed pre-pandemic levels in 2022, at 7.9 compared to 7.2 million people in 2019. Import growth (27.8 percent and raw materials 31.6 percent) exceeded merchandise export growth, widening the trade deficit. The current account deficit (CAD) deteriorated to US$5.3 billion over the first three-quarters of 2022, up from US$1.7 billion a year earlier. It was mainly financed by FDI, which is expected to remain at about 3.2 percent of GDP, and by an increase in other long-term capital inflows – all together supporting a reserve built-up to US$14.4 billion, up from $13 billion a year earlier.

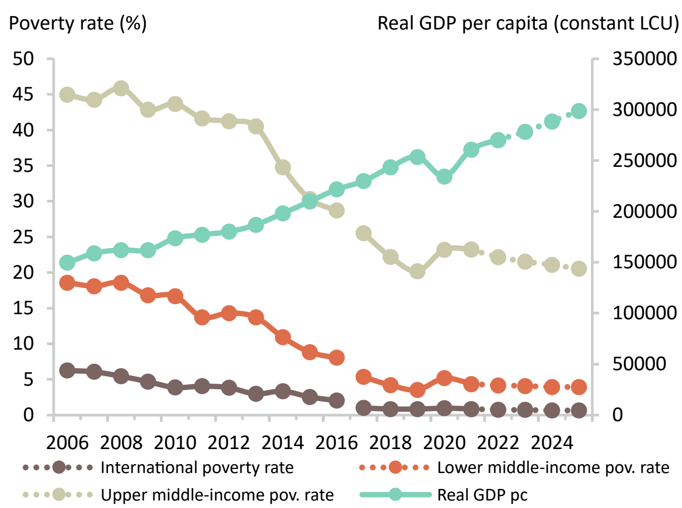
End-of-year inflation reached 7.8 percent y-o-y in 2022, outside the Central Bank's target range of 4±1 percent, prompting the Central Bank to increase the policy rate nine times in 2022, from 3.5 percent in Dec 2021 to 8.5 percent in Dec 2022.

FIGURE 1 Dominican Republic / Tourist arrivals, by air and by residence



Source: World Bank staff calculations based on Central Bank data.
Note: * Preliminary data.

FIGURE 2 Dominican Republic / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Rising inflation is reducing disposable incomes, especially for the vulnerable, as employment has remained below pre-pandemic levels.

The cost of the typical consumption basket increased 23.5 percent in 2022, compared to pre-pandemic levels, with the poorest quintiles being the most affected. During the first three quarters of 2022, the employment rate remained 1.4 percent points below and informality 2.6 percent points higher when compared to pre-pandemic levels. For all these reasons, poverty (defined as living with less than US$6.85 per day) is expected to remain above pre-pandemic levels in 2022.

The fiscal deficit widened to 3.5 percent of GDP in 2022, up from the 2.9 percent posted in 2021. This result was mainly driven by government efforts to mitigate price increases through subsidies for fuels, energy, transport, and basic food products, resulting in additional expenses of around 1.4 percent of GDP. These additional outlays were financed by a combination of higher-than-expected tax revenue collection, expenditure reallocations, and new public debt. Fiscal revenues decreased 0.3 percentage points of GDP relative to 2021, a decline explained by the slow dynamism of the corporate income tax relative to the nominal GDP. The debt of the Non-Financial Public Sector (NFPS) stood at 45.8 percent of GDP by the end of 2022, a reduction of 4.6 percentage points compared to 2021.

Outlook

Growth is expected to decelerate from 4.9 percent to 4.4 percent in 2023, driven by tighter financial conditions which will continue to slow down consumption and investment, continued fiscal consolidation, and the global economic slowdown. Structural reform implementation is expected to sustain growth potential in the medium-term, particularly reforms in energy, water, and public-private partnerships, coupled with efforts to increase the quality of human capital and attract FDI. As a result, growth is projected to accelerate to 5 percent after 2023.

The poverty rate (US$6.85 PPP 2017 per day) is expected to continue to decline in 2023 relative to 2020 but remain above pre-crisis levels at 22 percent.

The fiscal deficit is projected to narrow in 2023 as the government phases out subsidies to state-owned enterprises in the energy and water sectors, and as improvements are made in tax administration. These efforts are expected to gradually bring the fiscal deficit to 2.5 percent of GDP in the medium term. The public debt-to-GDP ratio is projected to stabilize below 57 percent over the medium term.

Inflation pressures are likely to remain persistent but continued tight monetary policy will bring inflation down to within the target band by 2024.

The macroeconomic outlook faces both external and domestic risks. A faster-than-expected slowdown of the US economy could directly affect tourist arrivals and exports. An escalation of geopolitical risks could amplify and prolong the negative terms of trade shock and its effects on the balance of payment and on inflation, while continued global monetary tightening could increase financing costs. Climate change has intensified the exposure to natural disasters, which, given the country's low degree of financial protection against these risks, could substantially increase contingent fiscal liabilities.

TABLE 2 Dominican Republic / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	-6.7	12.3	4.9	4.4	5.0	5.0
Private Consumption	-3.4	6.6	4.8	4.5	5.2	5.2
Government Consumption	4.9	0.1	3.6	3.9	6.0	5.4
Gross Fixed Capital Investment	-12.1	22.1	6.6	3.7	4.0	3.8
Exports, Goods and Services	-30.3	36.2	18.8	7.6	4.1	4.3
Imports, Goods and Services	-14.6	24.7	15.5	5.9	3.5	3.7
Real GDP growth, at constant factor prices	-6.3	11.5	4.9	4.4	5.0	5.0
Agriculture	2.8	2.6	5.0	2.5	3.0	3.0
Industry	-6.7	16.5	2.0	3.9	3.9	3.9
Services	-7.1	10.0	6.4	4.8	5.8	5.7
Inflation (Consumer Price Index)	3.8	8.2	8.8	5.0	4.0	4.0
Current Account Balance (% of GDP)	-1.7	-2.9	-5.7	-4.3	-3.9	-3.7
Net Foreign Direct Investment Inflow (% of GDP)	3.2	3.3	3.3	3.2	3.2	3.2
Fiscal Balance (% of GDP)[a]	-7.9	-2.9	-3.5	-3.1	-2.8	-2.5
Revenues (% of GDP)	14.2	15.6	15.3	14.9	15.0	15.0
Debt (% of GDP)[b]	69.1	62.6	59.1	58.9	58.0	56.3
Primary Balance (% of GDP)[a]	-4.7	0.2	-0.4	0.2	0.6	1.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	1.0	0.9	0.7	0.7	0.7	0.7
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	5.2	4.3	4.2	4.1	3.9	3.9
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	23.2	23.2	22.2	21.6	21.1	20.5
GHG emissions growth (mtCO2e)	-6.1	5.1	2.9	2.7	1.9	1.9
Energy related GHG emissions (% of total)	61.6	61.3	60.8	60.3	59.4	58.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are shown for the non-financial public sector (i. e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
c/ Calculations based on SEDLAC harmonization, using 2021-ECNFT-Q03. Actual data: 2021. Nowcast: 2022. Forecasts are from 2023 to 2025.
d/ Projections using microsimulation methodology.